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# WIRED TO THE FUTURE

## 2004 ANNUAL REPORT

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British Columbia Transmission CORPORATION™

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# MESSAGE FROM THE CHAIR & PRESIDENT

R.T.F. (Bob) Reid
Chair of the Board

Michael Costello
President &
Chief Executive Officer

On behalf of the Board of Directors and employees of British Columbia Transmission Corporation, we are pleased to present our first annual report.

This has been an exciting year for all of us. In a complex and rapidly changing industry, we built the foundation for a brand new company, with an innovative vision and dedicated focus on how electricity is transmitted across the province. The result is an organization that is independent both in structure and spirit. Other jurisdictions are watching with great interest as we create what we firmly believe will become the new model for transmission companies around the world.

In the fall of 2002, the provincial government released *Energy for our Future: A Plan for BC*. The government's vision for the energy sector's contributions to our province are set out in the plan's four key objectives:

- Low electricity rates and public ownership of BC Hydro
- More private sector opportunities
- Secure, reliable supply
- Environmental responsibility and no nuclear power sources

The creation of British Columbia Transmission Corporation (BCTC) directly supports the objectives of BC's Energy Plan. With BCTC's concentration on transmission, we will continue to build on a strong track record of managing the system that delivers safe, reliable, low-cost electricity to all British Columbians. We have taken a long-range, forward-thinking view in creating BCTC as a streamlined, dedicated organization. The solutions we are developing will let us help meet the province's energy needs not only today, but 20 years from now.

BCTC provides fair and open access to the electric transmission grid for all transmission customers. This is the foundation of a strong electricity sector that will benefit our province by encouraging private investment in new electricity supplies, facilitating the purchase of electricity by major customers from a variety of suppliers and ensuring the continued access to export markets and revenues. Under the *Transmission Corporation Act*, BCTC is, and will continue to be, a publicly owned company.

To ensure export opportunities, BCTC will continue to work with other jurisdictions to make sure British Columbia has access to trade markets in Western North America. As more independent power producers (IPP's) and other transmission customers become active, the benefits of this will be passed on to British Columbians in continued low rates.

In order to more fully achieve the Energy Plan's objectives, BCTC will design its own Open Access Transmission Service Tariff (OATT). In November 2003, BCTC began a consultation process that provided transmission customers the opportunity to give input into the design of BCTC's new tariff. In the summer of 2004, following these consultations, BCTC will file an application for its OATT with the British Columbia Utilities Commission (BCUC). By April 2005, BCTC will be a fully independent, regulated utility with the authority to bill its customers directly for its services.

Our success last year was a direct result of the hard work and commitment of our employees, and we would like to recognize and thank them for the remarkable progress achieved over the last year.

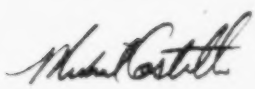
As much of the province's transmission infrastructure is over 40 years old and nearing the end of its life, additional capital and maintenance expenditures will be needed to ensure system reliability. BCTC's open planning process will ensure that programs are in place to both sustain and grow BC's transmission system to meet the province's needs in the future. We intend to build and improve on the historical good record of reliability that British Columbians have enjoyed.

Our success last year was a direct result of the hard work and commitment of our employees, and we would like to recognize and thank them for the remarkable progress achieved over the last year.

We are starting fiscal 2005 with a solid foundation and with a clear vision for the province's electricity grid for the future. We look forward to fulfilling our responsibilities next year, which include the design of BCTC's new tariff, implementing a public planning process, and playing a key role in the continued implementation of the Energy Plan. We will do all of this while remaining focused on, and committed to, ensuring a safe, reliable and cost-effective electricity grid for British Columbia.

On behalf of everyone at BCTC, we are pleased to share this first progress report with you.

R.T.F. (Bob) Reid
Chair of the Board



Michael Costello
President & CEO

# ACCOUNTABILITY STATEMENT

The 2004 Annual Report for British Columbia Transmission Corporation was prepared under my direction and in accordance with the *Budget Transparency and Accountability Act*. I am accountable for the contents of the report, including the selection of performance measures and targets and reported results. All significant decisions, events and identified risks, as of May 8, 2004, have been considered in preparing the report.

R.T.F. (Bob) Reid
Chair of the Board
British Columbia Transmission Corporation

# VISION + VALUES

## TRANSFORMING BC's ELECTRICITY INDUSTRY

**Transformation.** It describes both our business and our first year in operation.

We began Fiscal 2004 as the Transmission Line of Business, operating within BC Hydro. Recognizing the importance of an independent, world-class transmission system to the future of BC, and in accordance with the province's Energy Plan, the British Columbia Transmission Corporation was formed. Under the *Transmission Corporation Act*, BCTC is an independent, government-owned Crown corporation, regulated by the BCUC and legislated to remain 100% publicly-owned.

On August 1, 2003, BCTC commenced operations as a separate company, with a clear mandate: to operate, maintain and plan BC Hydro's high-voltage electric transmission system. We intend to do our part to ensure British Columbians continue to enjoy safe, reliable, low-cost electricity in BC, and we intend to improve on BC's good record in doing so.

BCTC will ensure fair and open access to the province's transmission system for all transmission customers. BCTC will also direct new investment in transmission infrastructure. The BCUC will continue to regulate transmission capital investments and the terms and rates for transmission services.

### OUR VISION:

As an independent electric transmission company, we are globally recognized for our innovative and sustainable approach to serving our customers.

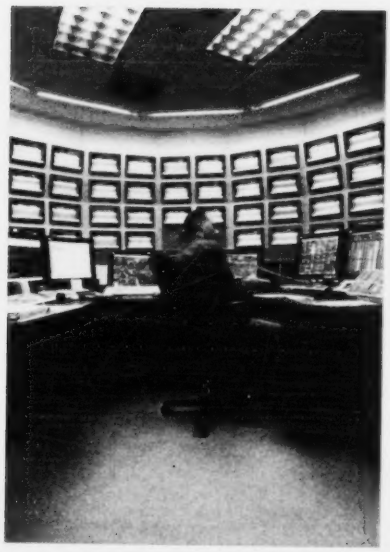
# VISION

## + VALUES (CONTINUED)

### OUR MISSION

We are BC's independent electric transmission company, ensuring fair and open access to the grid and creating value and new opportunities for our customers and stakeholders by providing safe, reliable and cost-effective transmission services.

Electricity is moved through the province using an interconnected system of approximately 18,000 kilometres of high-voltage power lines, underground cables, transmission towers, submarine cables and related substations. Regulated by the BCUC, BCTC operates this electricity grid independent of all power producers and other transmission customers.



Surrounded by Manitoba Hydro recording the pulse of the grid in every region of the province, an employee at BCTC's System Control Centre confers with a colleague on Vancouver Island.

### OUR VALUES

**Honesty & Integrity**
- We say what we mean
- We do what we say
- We treat all parties fairly and with respect

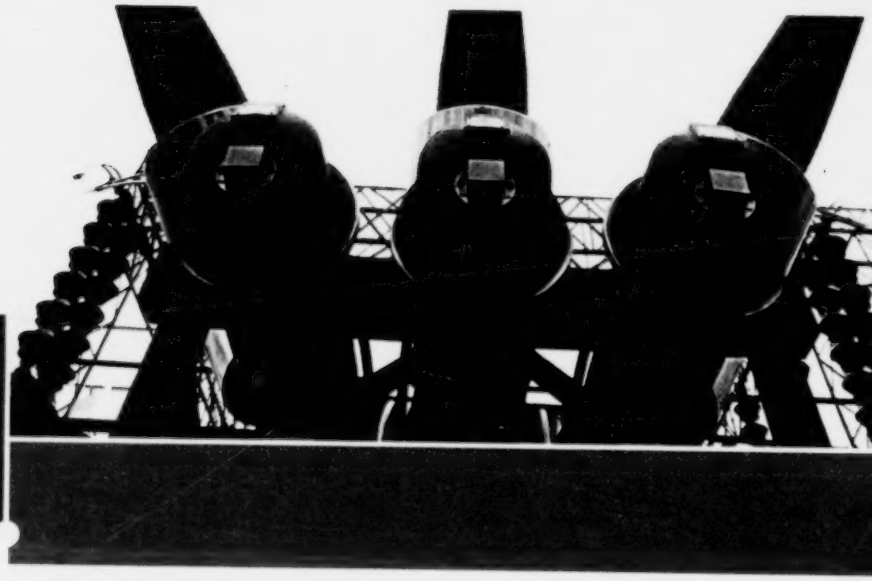
**Innovation**
- We continuously seek ways to improve
- We value creativity
- We set high performance objectives
- We understand and effectively manage risk

**Open and Responsive**
- We share information proactively
- We seek and respond to feedback
- We invest in understanding the needs of our customers and stakeholders

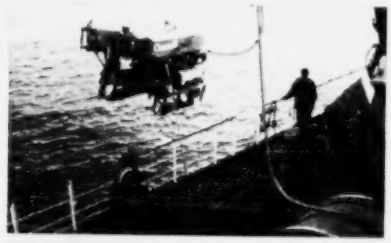
**Accountable**
- We take responsibility for our actions
- We encourage diverse opinions and support decisions once made
- We set clear objectives and accept responsibility for their achievement
- We pursue opportunities to increase our individual knowledge of our business

**Sustainable**
- We manage the business with both today and tomorrow in mind
- We employ the best people, respecting their diverse skills, experience and background, and invest in their future with us
- We respect the natural environment
- We work safely
- We encourage balance among home life, work and community involvement

# MANDATE



Our concentration on transmission gives us a clarity of business focus that allows BCTC to gain efficiencies and add value in many areas.



Innovative repair methods were used on the high-voltage direct current cable that provides electricity to Vancouver Island.

## MAXIMIZING THE VALUE OF THE GRID

BCTC has a responsibility to ensure that there is adequate transmission capacity available to reliably serve domestic and trade requirements. BCTC is focused on getting more out of the grid. A better utilized grid is used by more buyers and sellers and this helps to ensure that low-cost power continues to be available to all British Columbians.

# MANDATE (CONTINUED)

Chris Yue, System Operations Supervisor, monitors system load at BCTC's System Control Centre.

## IMPROVING RELIABILITY

As electricity transmission specialists, we have a concentrated focus on building and maintaining a safe, reliable and cost-effective power grid. With this single-minded objective, BCTC has staffed and structured itself into a highly-skilled, efficient and innovative organization. Some of the results of this focus are streamlined processes and improved efficiencies.

Our Asset Management Project, which started in early 2004, is an example of BCTC innovation and leadership. This project provides state-of-the-art information tools, processes and training to ensure assets are managed to target performance and lowest long-term cost. This landmark project has already attracted the interest of other international transmission companies who recognize the tremendous contribution of this initiative towards improving reliability and lowering maintenance costs.

## ORGANIZATION

Headquartered in Vancouver, with regional offices in Prince George, Duncan, Vernon and Burnaby, BCTC's team of about 300 men and women operate and manage the province's transmission system.

## CUSTOMER FOCUS

BCTC is committed to a process that allows stakeholders to provide input into the direction of transmission development in British Columbia. Public consultations are part of the open and transparent planning process that is a cornerstone of the BCTC business model. This input will assist BCTC in the selection of transmission solutions that provide the best overall outcome for ratepayers, which takes into consideration reliability, security, cost-effectiveness, social and environmental impacts.

## OPPORTUNITY THROUGH INTEGRATION

With access to export markets, the grid can be used by more independent power producers. Eighty percent of the electricity that travels along the grid today is generated by BC Hydro. Other power producers contribute the rest. As demand for power increases in BC and across North America, our electric transmission system will grow. This growth will provide more opportunities for BC's power producers to sell surplus power to export markets.

# AN OPEN INTEGRATED GRID

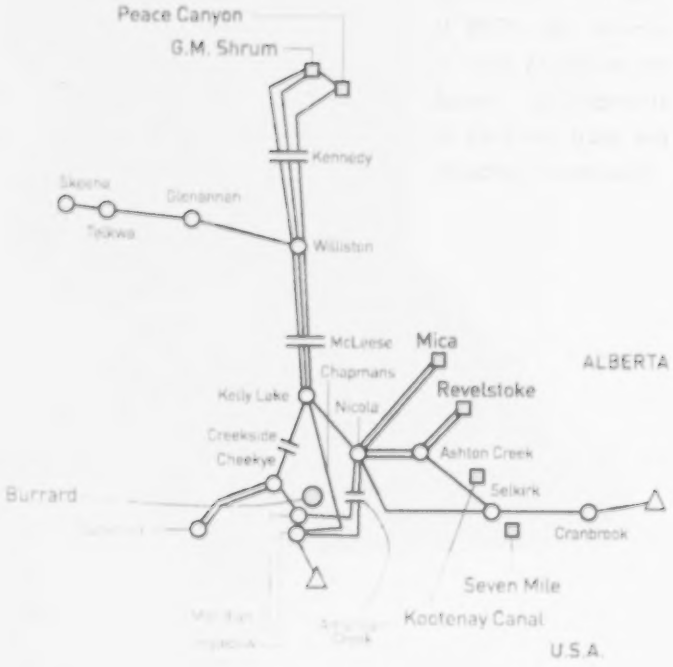
## SECURING THE FUTURE

British Columbians currently enjoy a reliable supply of low-cost hydroelectric power. But as energy demands grow, so does the need for new sources of electricity. In addition, the sale of surplus electricity to other markets continues to be a significant source of revenue which benefits BC Hydro ratepayers and the province—energy that needs to travel along a reliable and secure system. With the creation of BCTC, the province is well positioned for future developments in electricity trade and reliability coordination.

## OUR LINK TO OPPORTUNITY

BC's grid has been linked to Alberta and the Northwestern United States for over three decades. Electricity trade represents an important source of revenue for British Columbia. It also strengthens reliability of supply by providing the flexibility to buy power on the market during low water years to help support reservoir levels. BCTC will continue to work closely with other jurisdictions to ensure that trade opportunities continue to be available, while ensuring that BC's sovereignty is protected at all times.

# AN OPEN INTEGRATED GRID



# AN OPEN AND INTEGRATED GRID (CONTINUED)

## WHAT IS OPEN ACCESS?

Open Access allows any eligible transmission customer to use the grid to move power from within, out of, or across the province. All eligible customers, including BC Hydro, are provided these services under the same terms and conditions. Open Access facilitates opportunities for new and emerging energy market participants.

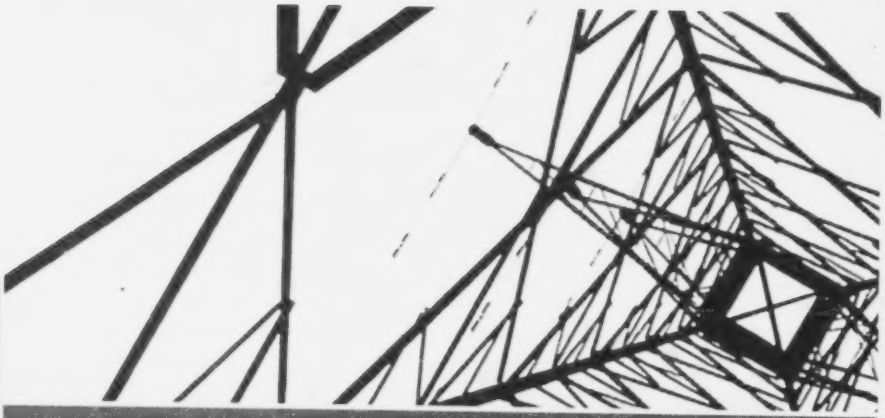
Display board utilized at a BCTC control centre provides an immediate overview of activity on the major transmission lines in BC.

## WHAT IS THE GRID?

The grid is the electric transmission system consisting of approximately 18,000 kilometres of transmission lines, operating at voltages from 60kV to 500kV. It incorporates power lines, underground cables, transmission towers, submarine cables and related substations.

Electricity is supplied to the Lower Mainland and Vancouver Island principally from the Peace River hydroelectric system through Kelly Lake Substation (near Castle Creek) and from the Columbia River system through Nicola Substation (near Merritt). The relationship between installed generation capacity and electrical demand around the province drives the development and operation of BC's grid.

The electricity grid is planned and operated by BCTC so that at any time, even during peak load periods, the system can withstand an outage of any single transmission line without loss of customer load.



# THE YEAR IN REVIEW

## BUILDING THE FOUNDATION

In its first year of operation, BCTC's initial strategic focus was on "Building The Foundation", implementing systems and procedures to establish its operations and to ensure a long-term and sustainable business.

MAJOR ACTIVITIES IN FISCAL 2004:

- Operating, maintaining and planning the electrical transmission system in BC pursuant to legislation & agreements
- Assuming responsibility for transmission from BC Hydro
- Staffing the organization, including the transfer of BC Hydro Transmission Line of Business employees
- Successfully reporting the new company, including designing the governance framework
- Initiating tariff consultation for new BCTC open access transmission tariff (OATT)
- Establishing risk management, treasury and internal audit processes
- Establishing environmental, emergency preparedness, business continuity and safety programs

# THE YEAR

## IN REVIEW (CONTINUED)

**2003**

**MAY**
BCTC incorporated
*Transmission Corporation Act* comes into effect

**JUNE**
Chair and Board appointed

**AUGUST**
Transmission employees transferred
BCTC goes live August 1

**OCTOBER**
Management team in place
Doors open on new office

**NOVEMBER**
BC Hydro/BCTC agreements designated by Cabinet

**DECEMBER**
BC Hydro Revenue requirement application filed

VARIOUS AGREEMENTS AND FILINGS WERE EXECUTED:

- Safety agreements with BC Hydro
- Service plan filed with government
- Five key agreements with BC Hydro signed and designated

**2004**

- FEBRUARY: BCTC Transmission Service Plan released
- MAY: BCTC participates in BC Hydro Revenue Requirement Application Hearing
  BCTC files Transmission System Capital Plan with BCUC
- SUMMER: BCTC files OATT Tariff application with BCUC
- NOVEMBER: BCTC files its own Revenue Requirement Application with BCUC

**2005**

BCTC implements new tariff

## BLACKOUT: A LESSON FROM THE EAST

On August 14, 2003, a falling tree branch took down a power line in northern Ohio. This one incident put in motion a chain of events that led to one of the largest power outages in North American history. The blackout served as a vivid reminder of the critical importance of a well-managed transmission system. BC's experience with major outages has demonstrated that the BC grid is designed to withstand extreme conditions and to contain disturbances within a limited part of the network, as was shown during the Tyee western blackout when a power outage was triggered by a loss of a transmission circuit in Idaho.

# THE YEAR

## IN REVIEW (CONTINUED)

2003

**NOVEMBER**

BC Hydro/BCTC agreements designated by Cabinet

**DECEMBER**

BC Hydro Revenue requirement application filed

2004

- FEBRUARY: BCTC Transmission Service Plan released
- MAY: BCTC participates in BC Hydro Revenue Requirement Application Hearing
  BCTC files Transmission System Capital Plan with BCUC
- SUMMER: BCTC files OATT Tariff application with BCUC
- NOVEMBER: BCTC files its own Revenue Requirement Application with BCUC

2005

# REPORT

# ON PERFORMANCE: OBJECTIVES

The Province of British Columbia's Energy Plan is built on four key cornerstones. BCTC has developed its own set of objectives to contribute to these cornerstones.

| ENERGY PLAN CORNERSTONES | BCTC OBJECTIVES |
| --- | --- |
| Low electricity rates and public ownership of BC Hydro | • Encourage new generation investment through independent and non-discriminatory access to transmission service<br>• Enhance BC benefits from electricity trade while maintaining BC sovereignty |
| Secure, reliable supply | • Encourage new generation investment through independent and non-discriminatory access to transmission service<br>• Ensure reliability and security of the transmission system<br>• Create the model transmission company |
| More private sector opportunities | • Encourage new generation investment through independent and non-discriminatory access to transmission service<br>• Support competitiveness of BC industries by facilitating the direct purchase of electricity by large users |
| Environmental responsibility and no nuclear power sources | • Ensure reliability and security of the transmission system<br>• Create the model transmission company |

# REPORT

## ON PERFORMANCE: OBJECTIVES (CONTINUED)

### PERFORMANCE RESULTS – FISCAL 2004

The following performance measures are derived from the "BC Hydro Service Plan for Fiscal Years 2003/2004 to 2005/2006" and represent metrics used by BCTC from its formation on August 1, 2003 to March 31, 2004. Definitions of each performance measure, the rationale for the measures, relevant benchmark information, and an explanation of any variances between targets and actual performance are contained on pages 41-44.

| | Performance | Fiscal 2004 Actual | Fiscal 2004 Target |
|---|---|---|---|
| **Financial Performance** | | | |
| Net Income | ↓ | $138.3M | $143.2M |
| Operations, Maintenance and Administration Costs per GWh per Kilometre of Transmission Line | ↓ | 10.5 ¢ | 10.1 ¢ |
| **Operational** | | | |
| Achieving Transmission Capacity Offered | ↔ | 85.4% | 85% |
| System Average Interruption Frequency Index – SAIFI (interruptions per delivery point) | ↑ | 1.43 | 2.0 |
| System Average Restoration Index – SAIRI (average hours to restore system) | ↓ | 2.43 | 2.25 |
| System Average Interruption Duration Index – SAIDI (average hours of system interruption) | ↑ | 2.12 | 4.0 |
| Western Electricity Coordinating Council (WECC) Reliability Compliance | ↔ | Full Compliance | Full Compliance |
| **Environment & Safety** | | | |
| Number of Preventable Environmental Incidents | ↑ | 2 | 5 |
| **Customer** | | | |
| Customer Complaints (complaints escalated by the customer to the organizational level of Vice President or higher) | ↑ | 3 | 5 |
| Meet IPP Interconnect on Response Time | ↑ | 100% of time | 70% of time |
| **Employee Measures** | | | |
| Employee Commitment Survey Results (on a scale of 5) | ↓ | 3.7 | 3.75 |
| All Injury Frequency | ↔ | 0 | 0 |

↔ On or slightly better than target ↑ Better than target

↓ Worse than target

# REPORT

## ON PERFORMANCE: OBJECTIVES (CONTINUED)

### PERFORMANCE MEASURES + TARGETS – FISCAL 2005

BCTC began its first full year of operations on April 1, 2004 and has adopted the following three measurement categories and nine performance measures and targets for the Fiscal 2005 period. These measures will form the basis of the 2005 Annual Report.

Corporate performance measures are derived from BCTC's corporate strategies and priorities, including its Mission, Vision and Values, and are designed to measure the Corporation's success in delivering on its key priorities. Definitions of each performance measure, the rationale for the measures and relevant benchmark information are contained on pages 45–46.

| | TARGET |
|---|---|
| FINANCIAL | |
| Operating Costs | $102.9M |
| OPERATIONAL | |
| Transmission Utilization Rate | 65% |
| Reliability SAIDI (average hours of system interruption) | 2.2 |
| Compliance with NERC/NWECC standards | Full compliance |
| Number of Preventable Lost Time Accidents | 0 |
| Number of Preventable and Reportable Environmental Incidents | 2 |
| Completion of Planned Safety & Environmental Management Programs | 85% |
| CUSTOMER/EMPLOYEE | |
| Employee Engagement Survey Alignment (on a scale of 5) | 3.5 |
| Stakeholder Survey Improvement (% positive survey) | 5% |

*North American Reliability Council

# REPORT ON PERFORMANCE: INITIATIVES + PRIORITIES

BCTC is proceeding with a number of projects focused on enhancing the Corporation's long-term efficiency and the reliability of the transmission system in British Columbia.

- **Asset Management Project:** optimize asset performance and improve capital planning and predictive maintenance processes
- **Tariff Design:** create a new, open-access tariff in consultation with transmission customers
- **Public Planning Process:** forums for stakeholders to provide input into transmission planning and solutions
- **System Control Modernization Project:** upgrade control centre systems
- **Asset Health Baseline Audit:** a comprehensive look at the health of the entire BC power grid

Capital planning, human resources development, environmental stewardship, safety and reliability and cost efficiency are other key initiatives for BCTC in Fiscal 2005.

Unequal ice loading on transmission lines is one of the many challenges handled by the line maintenance team.

Our vegetation management group uses a range of techniques to keep the thousands of kilometres along our transmission rights-of-way hazard-free. By girdling this tree trunk, growth is slowed to keep large branches away from the wires.

## ON PERFORMANCE: INITIATIVES + PRIORITIES (CONTINUED)

### ASSET MANAGEMENT

As BCTC operates, maintains and plans BC Hydro's transmission assets, effective asset management is critical for long-term business success. Under BCTC's Asset Management Project, launched on February 13, 2004, information will be compiled so that timely, accurate and complete data is made available to BCTC and its service providers in making prudent, proactive maintenance decisions.

Completed in May 2004, this project introduced new processes and technologies that support decision-making towards optimizing asset performance and provide for continuous improvement. This project will not only streamline and improve the way the asset management groups interface with each other but also the way they interface with other internal and external stakeholder groups.

This landmark project has already attracted interest from other international transmission companies, who recognize the tremendous value of this initiative in improving reliability and lowering maintenance costs.

The Asset Management Project will:

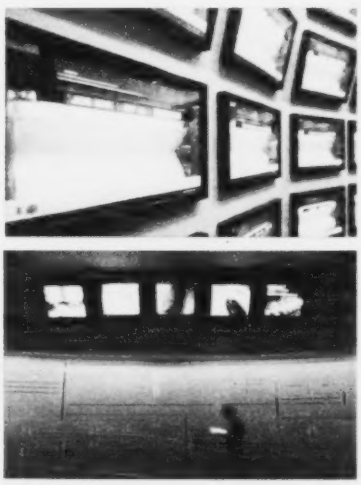
- [illegible]
- [illegible]
- [illegible]
- [illegible]
- [illegible]
- [illegible]
- [illegible]
- [illegible]
- [illegible]

## ON PERFORMANCE: INITIATIVES + PRIORITIES (CONTINUED)

### TARIFF DESIGN

One of BCTC's top priorities as a new transmission company is to design and implement a new tariff, which will set out the terms and conditions of service for transmission customers.

Through an open consultation process that began in November 2003, BCTC consulted with customers to identify and consider their needs for a new OATT. In summer 2004, BCTC plans to file with the BCUC an application for the new OATT, which will replace the existing BC Hydro Wholesale Transmission Services Tariff. The new tariff is expected to be implemented, following BCUC approval, in spring 2005.



Built in 1971, BCTC's System Control Centre remains the heart of the province's energy grid.

### ASSET BASELINE STUDY

In order to effectively plan and manage BC's electricity grid, BCTC initiated an Asset Baseline Study in early 2004. The study is a comprehensive look at the health of the entire BC power grid, from wires and cables to circuit breakers and servicing equipment.

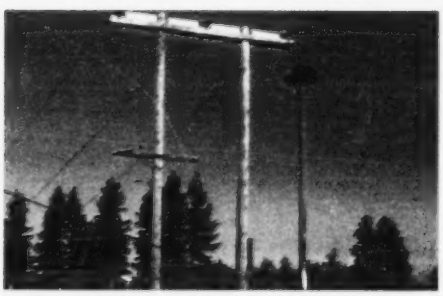
### SYSTEM CONTROL MODERNIZATION PROJECT

As a part of BCTC's commitment to maintain a high level of reliability and security, plans are under development to upgrade control centre technology currently at the end of its life cycle. This modernization initiative will reinforce the grid's reliability and flexibility by incorporating the latest technical solutions and infrastructure into our system.

## ON PERFORMANCE: INITIATIVES + PRIORITIES (CONTINUED)

### SAFETY

BCTC strives to continually improve BC's historical good record of safe, reliable transmission service. In keeping with our commitment to integrating safety throughout our operations, a Safety Management System was developed and implemented. This system is consistent with the Occupational Health and Safety Assessment Series 18001 (the latest international occupational health and safety standard). It enables BCTC to manage its occupational health and safety risks and improve its performance. By establishing standards, training, awareness, supervision, audits, follow-up and review, the Safety Management System is designed to ensure the safety of employees, contractors and the public.



Osprey nests were found sitting at the cross arms of seven transmission poles slated for replacement. BCTC and the Ministry of Water, Land and Air Protection worked together to transfer the nests to the new poles after the completion of the nesting season.

### ENVIRONMENTAL MANAGEMENT

Over the past year we have updated our Environmental Management System (EMS) to reflect the new organization and related changes in roles and responsibilities. Our EMS will drive improvement in BCTC's environmental performance by helping managers to integrate and align their environmental planning with their general business plans.

In Fiscal 2004 we concluded multi-year negotiations with the Department of Fisheries and Oceans and the Ministry of Water, Land and Air Protection by signing a Protocol Agreement for Maintenance Work in and Around Water. At the same time we signed the Agreed Work Practices for Riparian Vegetation, the first of a series of agreed work practices that will fall under the Protocol Agreement. BCTC will continue to address its impacts on the environment such as fish and riparian management, contaminated sites, biodiversity, oil and PCB management. Some of the targeted programs and initiatives carried out in Fiscal 2004 include:

- Biodiversity Management Initiatives
- Contaminated Sites Risk Assessment
- SF6 (greenhouse gas) Loss Reduction Program
- PCB Capacitor Replacement Program

BCTC is also an active participant in the Canadian Electricity Association's Environmental Responsibility and Commitment (ECR) Program. The goal of the ECR Program is to improve trust and enhance credibility with government, customers, employees and other constituents by continuously improving environmental management and performance.

REPORT

# ON PERFORMANCE: INDUSTRY FACTORS + CHALLENGES

## AGING TRANSMISSION SYSTEM ASSETS

BC's transmission system is on average over 40 years old. Much of this infrastructure is now approaching the end of its useful life. Cost-effective, long-term solutions are required today to seamlessly upgrade our grid and to ensure that safe, reliable, low-cost electricity will continue to be available in the future. BCTC will manage and direct investment in assets, guided by the Transmission System Capital Plan. These assets will continue to be financed by and legislated to remain the property of BC Hydro and the Province of British Columbia.

## GREATER DEMAND FOR ELECTRICITY

British Columbia consumes 10% more power today than it did 10 years ago. By 2020, total consumption is forecast to increase by a further 10%. Load requirements and system and trade complexities put pressure on the current system. In recent years, the total volume of transactions on the system has increased five-fold, from 38 average daily transactions in Fiscal 1998 to a record-high average of 178 per day in Fiscal 2004. As the demand for electricity continues to grow, so does the need for new, innovative forms of power generation. By providing open and fair access to our power grid, BCTC is helping to create opportunities for private investment in power generation in BC.

## INTEGRATION WITH NEIGHBOURING TRANSMISSION PROVIDERS

BC has been interconnected with Alberta and the Western United States for over three decades, delivering both financial and reliability benefits to British Columbians. The establishment of reciprocal tariffs that are approved by the BCUC and the creation of BCTC as an independent transmission company give the province a strong and secure foundation upon which to enhance its electricity trade position.

# MANAGEMENT

## DISCUSSION & ANALYSIS

The Management Discussion and Analysis has been prepared to assist in the understanding of BCTC's results of operations and financial position for the year ended March 31, 2004. This discussion should be read in conjunction with the financial statements of the company and accompanying notes.

### RESULTS OF OPERATIONS

Fiscal 2004 was the first year that BCTC operated as a separate transmission service company providing system operations and asset management and maintenance services. The Company was incorporated on May 2, 2003 and commenced operation on August 1, 2003 under the Transition Agreement and the Employee Transfer Agreement with BC Hydro. For the period August 1 to November 30, 2003, the Company operated on a cost recovery basis with funding from BC Hydro, while a set of Key Agreements were being negotiated. Following the designation of the Key Agreements by the BC Provincial Government on November 20, 2003, the Company commenced Phase 1 operation under the master agreement.

During the Phase 1 period from December 1, 2003 to March 31, 2004, BCTC earned a net income of $927,000 based on earning a 13.9% return on its equity. No dividend was declared or paid during Fiscal 2004.

### REVENUES

Revenues from BC Hydro totalled $42.3 million for Fiscal 2004. Revenues from BC Hydro included $28.1 million for transmission system operation, $10.2 million for managing and maintaining the transmission system, $1.7 million for distribution operations services, $1.3 million for generation dispatch services and $0.4 million for other services. During the year, BCTC earned $0.6 million in investment income as the Company was consistently in a surplus cash position. This revenue reduced the service fee charges to BC Hydro.

## DISCUSSION + ANALYSIS (CONTINUED)

### CONGESTION MANAGEMENT COSTS

As part of its system operation activities, BCTC periodically purchased congestion management services from other parties to address transmission system capacity or availability issues. Under an existing contractual arrangement, BCTC paid $0.3 million for transmission locational credits to ensure back-up transmission services were available to serve customer load.

### OPERATIONS, MAINTENANCE AND ADMINISTRATION

The operations, maintenance and administration (OMA) expenses for the eight months ended March 31, 2004 totalled $35.7 million. These expenses consist primarily of labour, outside services and Accenture Business Services (ABS) costs incurred in the provision of system operations and asset management and maintenance services. During Fiscal 2004, ABS continued to provide services to BCTC through its contract with BC Hydro.

The Company incurred $4.9 million in one-time costs associated with the establishment of BCTC during this period. These costs include information technology costs to separate and transfer transmission applications and data from the BC Hydro to the BCTC computer environment, interim financial and payroll systems, organizational design, legal, consulting, and employee transition costs associated with the transfer of employees from BC Hydro to BCTC.

### PROPERTY TAXES

Property taxes in the amount of $86,000 were incurred during this period. These taxes are related to the Lower Mainland and South Interior Control Centres which are leased from BC Hydro.

### DEPRECIATION AND AMORTIZATION

Depreciation for the period totalled $4.9 million for assets acquired from BC Hydro and other sources. Depreciation is provided principally on a straight-line basis over the estimated useful lives of the assets. The useful life of BCTC's assets ranges from 3 years (for computers) to 50 years for structures and improvements.

### FINANCING CHARGES

Finance charges for the period totalled $0.3 million and include charges on funds used for acquiring capital assets and charges relating to capital leases.

## ACCOUNTING POLICY

In April 2004, the Company adopted the CICA issued Section 3110, "Accounting for Asset Retirement Obligations". As a result, provisions for the costs of future removal and site restoration arising on the retirement of capital assets are made where there is a statutory, contractual or legal obligation. These costs are capitalized to the carrying cost of the asset and amortized on a straight-line method to income over the useful life of the asset.

## INVESTING ACTIVITIES

During the period, the Company invested $58.9 million, of which $56.6 million relates to the acquisition of capital assets from BC Hydro, $2.9 million to direct capital expenditures and the balance of $0.5 million to two employee mortgages. These expenditures were partially offset by a $2 million tenant inducement received from the landlord.

The assets acquired from BC Hydro included $24.0 million for communication equipment, $20.8 million for computer hardware and software, $6.4 million for buildings, $3.9 million for furniture and equipment, $1.2 million for leasehold improvements at the Bentall location and $0.3 million for other assets. The employee mortgages were issued in accordance with the Company's Employee Housing Assistance Program and represent a second mortgage on the employees' houses.

BCTC incurred direct capital expenditures totalling $3.9 million which includes $2.6 million for business systems and $1.3 million for control centres. Business support system expenditures relate to the information technology infrastructure required at the various control centres as well as the Bentall head office location. Software programs were implemented to conform to NERC cyber security requirements, to provide financial and human resource capabilities and to implement an effective asset management system. Hardware was installed to support the new applications and to replace ageing equipment.

Control centre expenditures were for the System Control Centre Modernization project. An initiative is underway to establish the scope and determine cost estimates. These costs are being capitalized and deferred. This is the first phase of the project, which has an estimated in-service date of 2008.

The Company received a $2.0 million tenant inducement payment from the landlord in respect of the head office at the Bentall location. This amount is amortized over the 10 year lease term.

## DISCUSSION + ANALYSIS (CONTINUED)

### FINANCING ACTIVITIES

The financing activities for the year totalled $48.7 million. On November 24, 2003 BCTC issued one common share to the Province of British Columbia (Minister of Finance) for $20 million. This amount, together with $30.8 million in short-term borrowing, was used to finance the acquisition of $50.7 million control centre and other business assets in December 2003. Other financing activities include the receipt of $8.6 million from BC Hydro for the financial settlement of the BCTC employees' earned time bank liability and $10.2 million in net advances from BC Hydro. During the period BCTC repaid $20.9 million short term borrowing using surplus cash on hand.

### RISK MANAGEMENT

BCTC's results are affected by various risks that arise from its operating environment and business practices. BCTC's risk management practices are designed to provide reasonable assurance that its business objectives will be met. In the interim period since its August inception, BCTC has documented its interim risk profile, including associated risk response activities, which has been reviewed by the Audit Committee of the Board of Directors.

In order to minimize the impact of some of these risks, the Corporation has implemented a corporate insurance program. In addition, there are terms within the Key Agreements that limit the amount of BCTC's liability during Phase I.

BCTC is in the process of implementing its integrated risk management and internal audit framework. This framework is designed to provide a formal risk management process of identification, assessment, response and monitoring in addition to facilitating internal audit's role of assurance.

In general, BCTC faces three main types of risks:

#### STRATEGIC RISKS

These risks stem from events that could impact the relevance or achievement of BCTC's strategic objectives. These include risks such as the regulatory environment, market trends, industry structure, technology shift and workforce demographics. Each of these risks has the potential of affecting BCTC's ability to achieve its objectives, including both financial and operating targets, and are largely outside of management's control. BCTC seeks to manage these risks through its annual strategic planning process, and the application of its risk management framework to its strategic objectives.

## DISCUSSION + ANALYSIS (CONTINUED)

### OPERATING RISKS

These risks stem from events that could impact the achievement of BCTC's operating plans and objectives. These include risks arising in the areas of reliability, project management, health, safety and environment, compliance and hazards. BCTC seeks to manage these risks though its governance system of principles, policies and procedures, diligent project reviews (including risk assessments), retention of highly trained and experienced personnel, comparison to industry benchmarks, and compliance audits. In addition, the Company has in place comprehensive Safety Management and Environmental Management Systems which help to manage the hazards and effects of BCTC's activities through the application of standards, procedures, training, and performance reporting.

### FINANCIAL RISKS

These risks stem from events that could impact the value and timing of BCTC's cash flows and its balance sheet. These include risks arising in the areas of credit, interest rates, and to a very minor extent, foreign currency exchange rates. BCTC manages its credit risk through established credit and collections policies and procedures in compliance with BC Hydro's transmission services tariff. The Company seeks to manage its exposure to interest rates through a combination of fixed and floating rate debt and a mix of maturity dates.

## NUMBER OF EMPLOYEES

Pursuant to the Employee Transfer Agreement dated July 16, 2003, 276 employees transferred from BC Hydro to BCTC. As of March 31, 2004, BCTC had 294 active employees.

# MANAGEMENT REPORT

The financial statements of BCTC are the responsibility of management and have been prepared in accordance with Canadian generally accepted accounting principles, consistently applied and appropriate in the circumstances.

The preparation of financial statements necessarily involves the use of estimates, which have been made using careful judgement. In management's opinion, the financial statements have been properly prepared within the framework of the accounting policies summarized in the financial statements and incorporate, within reasonable limits of materiality, all information available at May 7, 2004. The financial statements have also been reviewed by the Audit Committee and approved by the Board of Directors.

Management maintains systems of internal controls designed to provide reasonable assurance that assets are safeguarded and that reliable financial information is available on a timely basis. These systems include formal written policies and procedures, careful selection and training of qualified personnel and appropriate delegation of authority and segregation of responsibilities within the organization. An internal audit function independently evaluates the effectiveness of these internal controls on an ongoing basis and reports its findings to management and the Audit Committee.

The financial statements as at March 31, 2004 and for the period then ended have been examined by an independent external auditor. The external auditor's responsibility is to express his opinion on whether the financial statements, in all material respects, fairly present BCTC's financial position, results of operations and cash flows in accordance with Canadian generally accepted accounting principles. The Auditor's Report, which follows, outlines the scope of his examination and his opinion.

The Board of Directors, through the Audit Committee, is responsible for ensuring that management fulfills its responsibility for financial reporting and internal controls. The Audit Committee, comprising directors who are not employees, meets regularly with the external auditor, the internal auditor and management to satisfy itself that each group has properly discharged its responsibility to review the financial statements before recommending approval by the Board of Directors. The internal and external auditors have full and open access to the Audit Committee, with and without the presence of management.

Michael Costello
President & CEO

Jane Peverett
Vice President
Corporate Services & CFO

Vancouver, Canada
May 7, 2004

# REPORT OF THE AUDITOR GENERAL OF BRITISH COLUMBIA

## To the Shareholder of the British Columbia Transmission Corporation:

I have audited the balance sheet of the British Columbia Transmission Corporation as at March 31, 2004 and the statements of operations, retained earnings and cash flows for the period from incorporation, May 2, 2003 to March 31, 2004. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the British Columbia Transmission Corporation as at March 31, 2004 and the results of its operations and its cash flows for the period from incorporation, May 2, 2003 to March 31, 2004 in accordance with Canadian generally accepted accounting principles.

Wayne Strelioff

Wayne Strelioff, FCA
Auditor General
Victoria, British Columbia
May 7, 2004

AUDITED FINANCIAL STATEMENTS

## STATEMENT OF OPERATIONS

From the incorporation date of May 2, 2003 to March 31, 2004 (in thousands)

| | | |
|---|---|---|
| REVENUE (Note 4) | $ | 42,431 |
| EXPENSES | | |
| Corporate management costs | | 330 |
| Operating, maintenance and administration (Note 4) | | 30,734 |
| Property taxes | | 94 |
| Depreciation and amortization | | 4,942 |
| Finance charges (Note 4) | | 272 |
| | | 36,372 |
| INCOME BEFORE ONE-TIME ESTABLISHMENT COSTS | | 6,059 |
| One-time establishment costs (Note 4) | | 4,934 |
| Recovery from customers (Note 4) | | (4,934) |
| NET INCOME | $ | 6,059 |

## STATEMENT OF RETAINED EARNINGS

From the incorporation date of May 2, 2003 to March 31, 2004 (in thousands)

| | | |
|---|---|---|
| Net income | $ | 6,059 |
| RETAINED EARNINGS, END OF PERIOD | $ | 6,059 |

See accompanying notes to financial statements.

AUDITED FINANCIAL STATEMENTS

# BALANCE SHEET

as at March 31, 2004 (in thousands)

## ASSETS

**Current Assets**

| | |
|---|---|
| Cash and cash equivalents | $ [illegible] |
| Accounts receivable (Note 4) | [illegible] |
| Prepaid expenses | [illegible] |
| | [illegible] |
| **Other Receivable** (Note 2) | [illegible] |
| **Capital Assets** (Note 3) | [illegible] |
| | $ [illegible] |

## LIABILITIES AND SHAREHOLDER'S EQUITY

**Current Liabilities**

| | |
|---|---|
| Current portion of obligations under capital lease (Note 4) | $ [illegible] |
| Accounts payable and accrued liabilities (Note 4) | [illegible] |
| Accrued interest | [illegible] |
| Deferred revenue | [illegible] |
| Due to BC Hydro (Note 4) | [illegible] |
| Borrowings (Note 5) | [illegible] |
| | [illegible] |
| **Accrued Employee Benefits** (Notes 4 and 8) | [illegible] |
| **Obligations Under Capital Lease** (Note 4) | [illegible] |
| | [illegible] |
| **Shareholder's Equity** | |
| Share capital (Note 6) | [illegible] |
| Retained earnings | [illegible] |
| | [illegible] |
| | $ [illegible] |

Commitments and contingencies (Note 10)

See accompanying notes to financial statements

Approved on behalf of the Board:

Bev F. Park
Director

Michael Costello
President and Chief Executive Officer

# STATEMENT OF CASH FLOWS

From the incorporation date of May 2, 2003 to March 31, 2004 (in thousands)

| | |
|---|---|
| **OPERATING ACTIVITIES** | |
| Net income | $ 927 |
| Adjustment for non-cash items: | |
| Depreciation and amortization | 4,942 |
| Amortization of tenant inducement included in operations, maintenance and administration | (99) |
| Other | 465 |
| | 6,235 |
| Working capital changes | 8,862 |
| Cash provided by operating activities | 15,097 |
| **INVESTING ACTIVITIES** | |
| Capital asset acquisition from BC Hydro | (54,566) |
| Capital asset expenditures | (3,896) |
| Tenant inducement payment | 992 |
| Other receivable, net of repayment | (456) |
| Cash used for investing activities | (58,926) |
| **FINANCING ACTIVITIES** | |
| Employees' share bank payment from BC Hydro | 8,557 |
| Principal payments of Obligation Order capital lease | (72) |
| Borrowings | 9,943 |
| Issuance of share capital | 20,630 |
| Due to BC Hydro | 70,232 |
| Cash provided by financing activities | 49,656 |
| Increase in cash | 4,451 |
| Cash, beginning of period | |
| Cash, end of period | $ 4,827 |
| **SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION** | |
| Interest paid | $ 333 |

Cash consists of cash and cash equivalents

See accompanying notes to financial statements

# ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS

FROM INCORPORATION: MAY 2, 2003 TO MARCH 31, 2004

## NOTE 1: SIGNIFICANT ACCOUNTING POLICIES

### OPERATIONS

BCTC (the Company) is a provincial Crown Corporation incorporated on May 2, 2003 under the *BC Business Corporations Act* (formerly, the *Company Act*). The Company is authorized by the *Transmission Corporation Act* (May 29, 2003) and the Key Agreements designated by the Lieutenant Governor in Council (November 20, 2003) pursuant to that Act, to plan, operate and manage BC Hydro's electric transmission system. As part of the British Columbia government's Energy Plan, the Company is established as a separate government-owned corporation that has full responsibility for planning, operating and maintaining BC Hydro's transmission assets to ensure fair, non-discriminatory access to the transmission system. BCTC reports to the Minister of Energy and Mines and will be regulated by the BCUC.

The Company began operation on August 1, 2003 under the Transition Agreement and the Employee Transfer Agreement. For the period August 1 to November 30, 2003 (Transition Period), the Company operated the transmission business on behalf of BC Hydro on a cost recovery basis. The designation of the Key Agreements effectively terminated the Transition Agreement and the Company began Phase 1 operation under the Master Agreement effective December 1, 2003. The Company earns service fees for providing system operation and asset management and maintenance services to BC Hydro. These service fees are established based on the Company's actual cost of operation and a return on equity. The Company has begun to work on creating its own tariff, which will be submitted to the BCUC for review and approval in 2004, and will likely come into effect on April 1, 2005. Once its own tariff is in effect (Phase 2), the Company will become a regulated utility.

Due to the economic dependence of the Company on BC Hydro during the Phase 1 period, the Company's accounts will be consolidated with the accounts of BC Hydro.

The following significant accounting policies have been adopted in the preparation of the financial statements:

## CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash and units of a short-term unitized bond fund (maturing in 90 days or less) that are valued at the lower of cost and market.

## CAPITAL ASSETS

Capital assets are recorded at cost. During the construction of new assets, direct costs plus a portion of overhead costs and related financing costs are capitalized. Unfinished construction is transferred to capital assets in service when the asset is substantially complete. Depreciation commences in the month after an asset is put into service. Depreciation is provided principally on a straight-line basis over the estimated useful lives of the assets as follows:

| | |
|---|---|
| Buildings | 45 years |
| Equipment (including software) | 10 - 20 years |
| Communication equipment | 7 - 15 years |
| Automotive equipment | 5 - 10 years |
| Furniture and equipment | 10 years |
| Structures and improvements | 10 - 50 years |

## FUTURE REMOVAL AND SITE RESTORATION COSTS

Provisions for the costs of future removal and site restoration arising on the retirement of capital assets are made, where applicable, in accordance with predefined rates for specific asset profiles. These costs are capitalized to the carrying cost of the asset and depreciated on a straight-line basis to income over the useful life of the asset.

## LEASES

Leases are classified as capital or operating depending upon the terms and conditions of the contracts.

Asset values recorded under capital leases are amortized on a straight-line basis over estimated useful lives. Obligations recorded under capital leases are reduced by lease payments net of imputed interest.

## DEFERRED REVENUE

Deferred revenue consists principally of amounts received under Preliminary Study Agreements to investigate the requirements for interconnecting the independent power generation facilities to the Transmission System. The amounts received are deferred and included in income when earned.

## REVENUE RECOGNITION

Revenue is recognized on an accrual basis as services are provided. BCTC earns service fee revenue based on the actual cost of service plus a return on equity (13.9%). Revenue is earned through the provision of services to BC Hydro for system operation, asset management and maintenance, generation dispatch and distribution operations.

## FOREIGN CURRENCY TRANSLATION

Foreign currency denominated revenues and expenses are translated into Canadian dollars at the rate of exchange in effect at the transaction date. Foreign currency denominated monetary assets and liabilities are translated into Canadian dollars at the rate of exchange prevailing at the balance sheet date.

## PENSION AND OTHER RETIREMENT BENEFIT PLANS

The actuarial determination of the accrued benefit obligation for pensions and other retirement benefits uses the projected benefit method prorated on service, which incorporates management's best estimate of future salary levels, other cost escalation, retirement ages of employees and other actuarial factors. For the purpose of calculating the expected return on plan assets, those assets are valued at fair value.

Past service costs arising from plan amendments are deferred and amortized on a straight-line basis over the average remaining service period of employees active at the date of amendment.

## USE OF ESTIMATES

The Company's management has made a number of estimates and assumptions relating to the reporting of assets and liabilities and to the disclosure of contingent liabilities to prepare these financial statements in conformity with Canadian generally accepted accounting principles. Actual results could differ from these estimates.

## NOTE 2: OTHER RECEIVABLE

As part of the Employee Housing Assistance Program, the Company has granted 5-year housing loans to 2 employees totalling $461,000. These loans are secured by a second mortgage registered against their houses. The mortgage interest rates are 3.325% and 3.175% per annum calculated semi-annually. At expiry of the mortgage term, the employees have the option to renew the mortgage for an additional 5-year term. The loan balance, net of repayment, at March 31, 2004 is $456,000.

## NOTE 3: CAPITAL ASSETS

## NOTE 4: TRANSACTIONS WITH AND AMOUNT DUE TO BC HYDRO

(a) BC Hydro pays the Company for the cost of system operation and asset management services including an allowed return on equity and reimburses the one-time establishment costs incurred.

| ($ in thousands) | |
|---|---|
| [illegible] | $ 59,359 |
| [illegible] | 1,161 |
| [illegible] | 1,259 |
| [illegible] | 325 |
| | 62,104 |
| [illegible] | 1,443 |
| [illegible] | (1) |
| [illegible] | $ 63,547 |

One-time establishment costs of $4,936,000 have been reimbursed by BC Hydro.

(b) BCTC employees' earned time bank existing at the employees' transfer date from BC Hydro to BCTC was calculated to be $8,557,000. This employee liability has been reimbursed by BC Hydro to BCTC. The liability for employees' earned time bank as at March 31, 2004 is $8,554,000.

(c) BCTC employees' post-retirement benefit costs existing at the employees' transfer date from BC Hydro to BCTC was calculated to be $6,281,000. The amount of employee liability computed at the date of transfer, along with applicable interest to March 31, 2004, has not yet been paid by BC Hydro and is included in the total due to BC Hydro. At March 31, 2004, this employee liability is $6,999,000.

(d) Pursuant to agreements between the Company and BC Hydro, in December 2003 and March 2004, the Company acquired capital assets from BC Hydro for a total $56,566,000. BC Hydro's net book value for these assets at the date of transfer

(e) In December 2003, the Company entered into lease contracts with BC Hydro for control centre buildings and land (see Note 10). Two building leases valued at BC Hydro's net book value of $7,297,000 are accounted for as capital leases. These amounts have been included in the financial statements as capital assets and obligations under capital lease. At March 31, 2004, the balance of the obligations under capital lease is $80,000 current and $7,139,000 non-current. Included in finance charges is $133,000 of interest expense relating to the capital leases. Other land and building leases with BC Hydro are accounted for as operating leases. Included in the operations, maintenance and administration expense is $68,000 for these operating leases.

(f) The Company's transactions with BC Hydro which remained unpaid at March 31, 2004 are as follows:

| ($ - thousands) | |
|---|---|
| Operating costs paid by BC Hydro on behalf of BCTC | $ 17,117 |
| BCTC service fee revenue receivable from BC Hydro | 2,244 |
| Transfer of assets and liabilities, net, by way of lease | (7,297) |
| Service fee received in excess of BCTC cost of service | (7,317) |
| Working capital transferred from BC Hydro | 10 |
| Capital asset acquisitions | 400 |
| Other | (2) |
| Total due to BC Hydro | $ 5,155 |

Service fee received in excess of BCTC cost of service and related is repayable to BC Hydro and will accrue interest if repaid after April 30, 2004.

## NOTE 5: BORROWINGS

Borrowings outstanding at March 31, 2004 of $9,943,000 have a remaining term to maturity of 26 days. Under the terms of an agreement with the Province of British Columbia, the Company is authorized to borrow up to $25,000,000 under the short-term commercial paper program. Interest is charged at the prevailing money market rates. In addition, the Company has available a $5,000,000 demand revolving line of credit with a chartered bank.

## NOTE 6: SHARE CAPITAL

Authorized Share Capital: The Company is authorized to issue 10,000,000 common shares without par value.

Common Shares

| | # of Shares | Amount |
|---|---|---|
| Issued: [illegible] | 5 | |
| Issued pursuant to Acquisition | | |
| Agreement [illegible] | | [illegible] |
| Issued and Outstanding | 5 | $ [illegible] |

The Province of British Columbia owns both common shares.

## NOTE 7: FINANCIAL INSTRUMENTS

At March 31, 2004, the Company's financial instruments include cash and cash equivalents, accounts receivable, other receivable, accounts payable and accrued liabilities, and borrowings. The fair values of the Company's financial instruments approximate carrying amounts.

## NOTE 8: EMPLOYEE BENEFIT PLANS

The Company provides a defined benefit registered pension plan to all employees. Pension benefits are based on years of membership service and highest five-year average pensionable earnings. Employees make basic and indexing contributions to the ble in the indexing fund. The Company contributes amounts as prescribed by an independent actuary towards the cost of providing basic benefits under the plan.

In addition, the Company provides a supplementary pension arrangement that provides additional pension benefits to employees to the extent that their benefits under the registered pension plan are constrained by the maximum pension limits under the Income Tax Act.

## NOTE 9: BC HYDRO INDEMNITY

During the Transition Period, which ended November 30, 2003, BC Hydro agreed to accept all risk of loss, damage, or destruction to all of any property of BC Hydro ceased by the Company or its employees. In addition, BC Hydro agreed to indemnify the Company and its employees for all liabilities, losses, damages, and penalties arising out of any act, omission or circumstance occurring during the Transition Period.

During Phase II, BC Hydro is responsible for and indemnifies the Company for losses incurred by the Company in excess of $50 million in connection with any of the following:

(a) any claim arising out of any act or omission, negligence or wilful misconduct by the Company or Company contractor;

(b) any failure of the Company or any Company contractor to comply with the terms and conditions of the Transmission Property Rights or with any Laws including Environmental Laws;

(c) any release of hazardous materials from the assets acquired or leased by the Company from BC Hydro.

(d) any release of hazardous materials from the transmission system caused by the Company or Company contractor;

(e) any claim for personal injury or damage relating to electric and magnetic fields (EMF) emanating from the transmission system as it existed on December 1, 2003, to the extent the Company failed to act as a prudent utility, and EMFs emanating from additions and extensions to the transmission system; and

(f) any failure by the Company or Company contractor to comply with BC Hydro's First Nations policies.

To date, there have been no indemnity claims made by the Company.

## NOTE 10. COMMITMENTS AND CONTINGENCIES

(a) Pursuant to agreements between the Company and BC Hydro, the Company is committed to acquire $1,800,000 of capital assets under construction from BC Hydro at carrying value upon completion.

(b) The Company occupies leased premises in various centres and has land and buildings under capital and operating leases with BC Hydro.

At March 31, 2004, the future minimum lease payments under capital leases and operating leases are:

| ($ in thousands) | Capital assets | Operating leases |
|---|---|---|
| | | |
| | | |
| | | |
| | | |
| | | |
| | | |
| | | |
| | | |
| | | |

ACCOMPANYING

# NOTES TO THE PERFORMANCE RESULTS

## FINANCIAL PERFORMANCE – FISCAL 2004 MEASURES

| | | | | |
|---|---|---|---|---|
| Financial Performance | | | | |
| Net Income | | | | |
| Operations, Maintenance and Administrative (OMA) Costs per GWh per Kilometre of Transmission Line | | | | |

# ACCOMPANYING

## NOTES TO THE PERFORMANCE RESULTS (CONTINUED)

### FINANCIAL PERFORMANCE – FISCAL 2004 MEASURES

| | | | | |
|---|---|---|---|---|
| Operational Measures | | | | |
| Achieving Transmission Capacity Offered | | | | |
| SAIFI (System Average Interruption Frequency Index) | | | | |
| SAIDI (System Average Restoration Index) | | | | |

# ACCOMPANYING

## NOTES TO THE PERFORMANCE RESULTS (CONTINUED)

### FINANCIAL PERFORMANCE - FISCAL 2004 MEASURES

| | Definition | Purpose of Measure | Calculation Basis | Performance Assessment |
|---|---|---|---|---|
| **Operational Measures (continued)** | | | | |
| SAIDI (System Average Interruption Duration Index) | The average amount of time that a delivery point has been without power in a year | | | |
| WECC Reliability Compliance | | | | |
| **Environment Measure** | | | | |
| Number of Preventable and Reportable Environmental Incidents | | | | |

# ACCOMPANYING

## NOTES TO THE PERFORMANCE RESULTS (CONTINUED)

### FINANCIAL PERFORMANCE – FISCAL 2004 MEASURES

| | | | | |
|---|---|---|---|---|
| **Customer Measure** | | | | |
| Customer Complaints | | | | |
| Meet IPP Interconnection Response Time | | | | |
| **Employee Measure** | | | | |
| Employee Commitment Survey Results | | | | |
| All Injury Frequency | | | | |

# ACCOMPANYING

## NOTES TO THE PERFORMANCE RESULTS (CONTINUED)

### FINANCIAL PERFORMANCE – FISCAL 2005 MEASURES

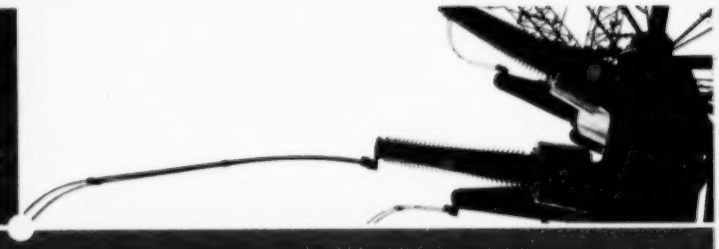
| | Definition | Rationale for Measure | Benchmark Data |
|---|---|---|---|
| **Financial Measure** | | | |
| Operating Costs | BCTC's operating costs that are charged to BC Hydro. | These are costs for which BCTC is directly responsible and over which BCTC exercises managerial control. | Comparative statistics for this measure are internal to BCTC. Time series data will be used for comparison. |
| **Operational Measures** | | | |
| Transmission Utilization Ratio | The ratio of total transmission capacity sold to total transmission transfer capacity. | This measures how much of the transmission grid's capacity is actually sold to its customers, generating additional revenue. | Comparative statistics for this measure are internal to BCTC. Time series data will be used for comparison. Comparable industry statistics may become available over time. |
| Reliability SAIDI (System Average Interruption Duration Index) | The average amount of time that each delivery point is interrupted in a year. | This measure assesses BCTC's effectiveness in attaining high reliability of transmission service. | Reliability statistics for independent transmission have a limited history, given the fairly recent disaggregation of vertically integrated utilities. Additionally, definitions are inconsistent, leading to a very limited universe of comparable data points. |
| NERC/WECC Compliance | Compliance with reliability standards established by the WECC and the security standards established by the NERC. | The August 14, 2004 east coast blackout reinforced the urgency of high reliability standards among interconnected electrical systems. Similarly, high vigilance is needed to protect system operations from harm and intrusion. | Compliance with NERC/WECC's standards is an industry standard. Statistics about the compliance of others are not available. |
| Number of Preventable Lost Time Accidents | A preventable lost time accident is one in which BCTC and its employees failed to foresee a risk and fail to avoid an accident. | Supports a fundamental BCTC objective: employee safety. | Comparable transmission industry statistics are not immediately available. |

## NOTES TO THE PERFORMANCE RESULTS (CONTINUED)

# FINANCIAL PERFORMANCE – FISCAL 2005 MEASURES

| | Definition | Rationale for Measure | Benchmark Data |
|---|---|---|---|
| **Operational Measures (continued)** | | | |
| Number of Preventable and Reportable Environmental Incidents | Preventable environmental incidents are primarily the result of human error either by BCTC staff or BCTC contractors. | Supports BCTC Environment Responsibility Principles. | Comparable industry statistics are not immediately available. |
| Completion of Planned Safety and Environment Management Programs | BCTC is implementing new safety management and environmental management programs. This measure records progress in completing the annual calendar of actions that are designed to prevent safety or environmental incidents. | Places a focus on implementing the safety and environmental management programs designed to meet both time and preventable incident targets. | This is an internally benchmarked measure that compares BCTC's actual performance against set targets. |
| **Employee Measure** | | | |
| Employee Engagement Survey Results | Employees rate BCTC's progress in building productive engagement (alignment) within the workforce. | This measure assesses progress in building a high performance organization. | This measure will be compared to BCTC's previous year's survey results. |
| **Stakeholder Measure** | | | |
| Stakeholder Survey | A survey of BCTC's customers and stakeholders to assess their awareness, impressions and expectations of BCTC. | This measure will compare results with a baseline Stakeholder survey completed in March 2004. It will assist BCTC in refining corporate goals and future actions in light of the needs of customers and stakeholders. | This measure will be compared to BCTC's previous year's survey results. |

# GLOSSARY



**CAPACITY**

In the electric power industry, capacity has two meanings:

1. System Capacity: The maximum power capability of a system.

   For example, a utility system might have a rated capacity of 5000 megawatts, or might sell 50 megawatts of capacity.

2. Equipment Capacity: The maximum power capability of piece of equipment.

   For example, a generating unit might have a rated capacity of 50 megawatts.

**CURRENT**

The flow of electricity in a conductor. Current is measured in amperes. Direct Current (DC) is current that flows continuously in the same direction (as opposed to alternating current). The current supplied from a battery is direct current.

**FERC**

Federal Energy Regulatory Commission (U.S.A.).

**FREQUENCY**

The number of cycles through which an alternating current passes in a second. The North American standard is 60 cycles per second, known as 60 hertz.

**GIGAWATT HOUR (GW H)**

A unit of bulk energy. One million kilowatt hours. One billion watt hours.

**GRID**

A network of electric power lines and connections.

**INTERCONNECTED SYSTEM**

A system consisting of two or more individual power systems connected together by tie lines.

**INTERTIE (INTERUTILITY TIELINE)**

Transmission circuit used to tie or inter-connect two load areas of two utility systems.

**INDEPENDENT POWER PRODUCER (IPP)**

A privately owned power generating facility which may be connected to a utility system to supply electricity for domestic or export markets.

**KILOWATT HOUR (KWH)**

The commercial unit of electric energy. 1000 watt hours. A kilowatt hour can best be visualized as the amount of electricity consumed by ten 100-watt light bulbs burning for an hour.

**LOAD**

The total amount of electricity required to meet customer demand at any moment. The load equation fluctuates depending on electricity use throughout any given day.

**MEGAWATT (MW)**

A unit of bulk power. 1000 kilowatts.

**NERC**

North American Electric Reliability Council.

**OATT**

Open Access Transmission Tariff.

**OPEN ACCESS**

Open Access allows the use of the transmission system to move bulk power from one point to another on a nondiscriminatory basis.

**POWER**

The rate of doing work. Electric power is measured in watts.

**TRANSMISSION**

The process of transporting electric energy in bulk on high voltage lines from the generating facility to the local distribution company for delivery to retail customers.

**VOLTAGE**

The electrical force or potential that causes a current to flow in a circuit (just as pressure causes water to flow in a pipe). Voltage is measured in volts (V) or kilovolts (kV). 1 kV = 1000 V.

# CORPORATE GOVERNANCE
## AS AT 31 MARCH 2004

BCTC is a new provincial Crown corporation, incorporated under the British Columbia *Company Act* on May 2, 2003. BCTC's Board of Directors was appointed by shareholder resolution on May 26, 2003.

### BOARD OF DIRECTORS

The Board is responsible for the governance and stewardship of the Corporation. The Board's role is to confirm and maintain corporate direction, assign responsibility to Management for achievement of that direction, review and approve Management's strategic plans, define limitations, and monitor performance against those objectives and limitations. In fulfilling this role, the Board regularly reviews corporate objectives to ensure they remain responsive to the changing business environment in which the Corporation operates.

The Board is responsible for full and timely disclosure of the Corporation's financial and business performance and material developments reasonably anticipated to have significant impact on the prospects and risks of the Corporation's business.

The Board, using the Board's independent judgement, is responsible for balancing commercial and public policy objectives to ensure that the Corporation is operated in a sound commercial manner while at the same time fulfilling the public policy responsibilities assigned to it as a Crown corporation by its shareholder, the Government of British Columbia. In fulfilling its responsibilities, the Board also considers the interests that other stakeholders such as customers, communities and employees may have. Currently, the Board has three standing Committees: the Audit Committee, Human Resources Committee and Corporate Governance Committee.

# CORPORATE GOVERNANCE
AS AT 31 MARCH 2004

## HUMAN RESOURCES COMMITTEE

The Human Resources Committee provides guidance on behalf of the Board in the development of human resource policies to ensure that BCTC is successful in attracting and retaining the human resources needed to execute the Corporation's mandate. The Committee reviews and assesses environmental, health and safety objectives, management performance and practices.

## AUDIT COMMITTEE

The role of the Audit Committee is to support the Board in fulfilling its obligations and oversight responsibilities relating to the audit process, financial reporting, system of internal controls, relationship with the external auditor and governance of the Corporation's pension plan and risk management. The Committee is required to review and recommend for Board approval the Corporation's audited and unaudited financial statements.

## CORPORATE GOVERNANCE COMMITTEE

The Corporate Governance Committee provides the Board with advice and recommendations relating to corporate governance in general, including matters relating to the stewardship role of the Board, assessing Board effectiveness, addressing Board composition and compensation, subject to Shareholder Policy, and providing ongoing development for Directors. The Committee is responsible for such procedures as may be necessary to allow the Board to function independently.

# CORPORATE GOVERNANCE
## AS AT 31 MARCH 2004

### 2004 ACTIVITIES

In Fiscal 2004, BCTC's Board of Directors convened 10 Board meetings and 26 Board Committee meetings. Directors also participated in a series of orientation sessions designed to advance transmission industry acumen and issues awareness. The Board of Directors established a best practices corporate governance framework for the Corporation, proclaiming key guiding principles, endorsing related policies and implementing an Employee and Director Code of Conduct for the organization.

In overseeing the development of the newly formed Corporation, the Board approved Key Agreements with British Columbia Hydro and Power Authority for the Corporation to operate, plan and maintain transmission assets as contemplated under the British Columbia *Transmission Corporation Act*. The Board was active in corporate strategy development as well as the implementation of appropriate financial, risk management and general governance structures for the Corporation.

# CORPORATE GOVERNANCE
## AS AT 31 MARCH 2004

Composition of the Board and its three standing Committees is set out below:

R.T.F. (Bob) Reid
Chair of the Board

Michael Costello
President &
Chief Executive
Officer

Nicole Byres
Director, Member
Corporate Governance
Committee

Richard Campbell
Director
Chair, Human
Resources Committee

John Gill
Director
Member, Audit
Committee

Norm Laythorpe
Director
Member, Audit
Committee

Joanne McLeod
Director
Member, Human
Resources Committee

Margot Northey
Director
Chair, Corporate
Governance Committee

Bev Park
Director
Chair, Audit
Committee

Gerald Wesley
Director
Member, Human
Resources Committee

Ralph Winter
Director
Member, Audit
Committee

# CORPORATE GOVERNANCE
AS AT 31 MARCH 2004

## EXECUTIVE & CORPORATE OFFICERS

Michael Costello
President &
Chief Executive
Officer

Yakout Mansour
Senior Vice President
System Operations
& Asset Management

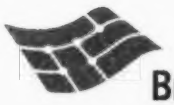
Jane Peverett
Chief Financial Officer
& Vice President
Corporate Services

Scott Woronuik
Vice President
Investment Planning
& Strategy

Karen Adderley
Corporate Secretary

Herb Dodd
Acting General Counsel

Elizabeth Hong
Controller



British Columbia Transmission
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